

January ISM Manufacturing Index

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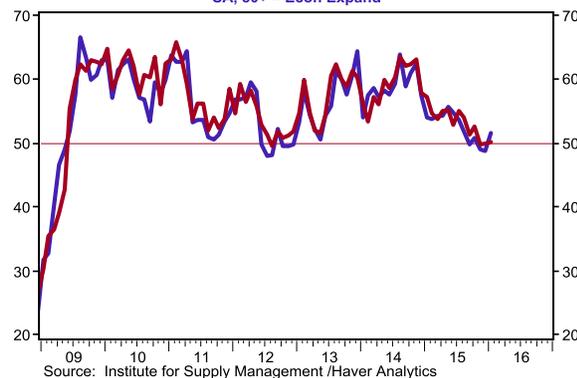
- The ISM manufacturing index rose to 48.2 in January, coming in below the consensus expected level of 48.4. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in January. The new orders index rose to 51.5 from 48.8 while the production index moved higher to 50.2 from 49.9 in December. The supplier deliveries index increased to 50.0 from 49.8. The employment index fell to 45.9 from 48.0 in December.
- The prices paid index was unchanged at 33.5 in January.

Implications: It was a real mixed bag report today from the ISM, with the headline index remaining in contraction territory (remember, levels above 50 signal expansion while levels below 50 signal contraction, so a move higher to 48.2 means continued contraction, but at a slower pace than last month), while the major sub-indexes were mostly positive. However, the two most forward looking measures, new orders and production, both returned to levels above 50, signaling growth. Employment was the major drag in January, as the petroleum and coal industry led ten of eighteen manufacturing industries to report declining employment. This comes in contrast to the continued strength in other employment indicators (such as initial claims, which have remained below 300K since February of last year). It's also important to remember that manufacturing represents a relatively small piece of overall employment. In 2015, manufacturing added an average of 2,500 jobs a month, while the private sector as a whole grew by more than 210,000 jobs monthly. In other words, today's report does little to change our outlook on Friday's employment report, where we expect to see significant gains. The modest readings from the ISM manufacturing report since peaking at 58.1 in August 2014, have given some pessimists reason to cheer, but we see no broad-based evidence of a significant slowdown. And remember, the ISM is a survey which can reflect sentiment as much as actual economic activity. As a whole, today's data continues to highlight a stark contrast in two broad sectors of the economy: services, where the economy is expanding briskly and prices are rising, versus goods, where both growth and inflation are soft to non-existent. Overall activity isn't booming, but it does continue to plow forward at a modest pace. In other news this morning, construction increased 0.1% in December (-0.5% including downward revisions for October/November). The slight gain in December itself was the by-product of a surge in government projects (paving roads and building bridges) and new home construction, and a large drop in commercial construction, particularly chemical manufacturing facilities, probably related to a drop in oil output.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand
ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index	Jan-16	Dec-15	Nov-15	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	48.2	48.0	48.4	48.2	49.2	53.9
New Orders	51.5	48.8	49.0	49.8	50.3	54.1
Production	50.2	49.9	49.8	50.0	51.3	57.2
Inventories	43.5	43.5	43.0	43.3	45.6	51.0
Employment	45.9	48.0	50.8	48.2	48.9	54.1
Supplier Deliveries	50.0	49.8	49.6	49.8	49.9	53.3
Order Backlog (NSA)	43.0	41.0	43.0	42.3	42.9	46.0
Prices Paid (NSA)	33.5	33.5	35.5	34.2	36.4	35.0
New Export Orders	47.0	51.0	47.5	48.5	47.7	49.5

Source: National Association of Purchasing Management